

VZCZCXRO2862  
RR RUEHAST RUEHBI RUEHCI RUEHLH RUEHPW  
DE RUEHCG #0272/01 2311006  
ZNR UUUUU ZZH  
R 181006Z AUG 08  
FM AMCONSUL CHENNAI  
TO RUEHC/SECSTATE WASHDC 1795  
INFO RUEHNE/AMEMBASSY NEW DELHI 3229  
RUCNCLS/ALL SOUTH AND CENTRAL ASIA COLLECTIVE

UNCLAS SECTION 01 OF 03 CHENNAI 000272

SENSITIVE

SIPDIS

E.O. 12958: N/A

TAGS: [PGOV](#) [PREL](#) [PTER](#) [PHUM](#) [ECON](#) [ENRG](#) [IN](#)

SUBJECT: WHAT WOULD LENIN DO? KERALA CPM SAYS "SEEK OUT FDI"

REF: A) MUMBAI 360 B) CHENNAI 251 C) NEW DELHI 2012

¶1. (SBU) Summary: Political Counselor and Consulate staff surveyed Kerala's political and economic scene in conversations with political and business leaders, journalists, and academics during an August 11-12 visit to the South Indian state's capital, Trivandrum (Thiruvananthapuram). In a major shift, senior leaders from the state's ruling Communist Party of India (Marxist) (CPM) pleaded for assistance in attracting U.S. private sector investment in Kerala. Interlocutors from across the spectrum agreed that the CPM and its allies could lose a substantial portion of the 19 of 20 parliamentary seats they currently hold in upcoming elections. But the potential for Congress to pick up seats in Kerala may be blunted by successful CPM outreach to Muslim voters. The CPM is already aggressively courting Muslims by trying to tap into anger at the Congress party over U.S.-India civil nuclear cooperation; Congress worries that a possible U.S. confrontation with Iran will put it further into trouble with this important constituency. End summary.

Kerala's CPM follows the West Bengal path  
-----

¶2. (SBU) In separate meetings, three Kerala CPM leaders emphasized that the once-hostile leftist government is now eager to attract foreign investment to the state. CPM State Secretary Pinarayi Vijayan opened the meeting, which was held in his office underneath framed pictures of Stalin and Lenin, by telling Political Counselor that "we need your assistance" in drawing U.S. investment to the state. Vijayan, who is a member of the CPM Politburo, added that "we have no problems with American companies, no hesitations at all." He explained the change in the Kerala CPM's position on investment by saying that "government does not have enough money to adequately develop the state. We need money from the private sector."

¶3. (SBU) Kerala Finance Minister Thomas Isaac (CPM), echoed the sentiments expressed by Vijayan, with whom Isaac is close. Isaac said "rapid industrialization is desirable but the government budget is unable to support the required investment." "We have to tap into the private sector," he added while noting that "we'll use public private partnerships" for infrastructure development. As the meeting closed, Isaac pulled Consulate Political/Economic officer aside and requested that we urge U.S. companies to visit him to discuss investing in Kerala. Education Minister M.A. Baby (CPM), also a close associate of Vijayan, agreed that Kerala needs foreign direct investment (FDI) and made a spirited effort to convince Political Counselor that Leninist economic principles permit FDI.

¶4. (SBU) Sources outside of the CPM confirmed the shift in the Kerala CPM's mindset towards private sector investment. A journalist said "change in the Kerala CPM is happening, but Baby and Isaac have to make the changes through the backdoor; otherwise they will be called 'neoliberals' or 'Gorbachev-ists' by the hardliners." Executives from US Technologies, an American IT company with a major presence in Trivandrum, told Political Counselor that after the CPM came to power in 2006 the Chief Minister met first with the information technology sector to assure them that they would

continue to receive the support of the government. The executives added that they have since received "phenomenal support" from the CPM government. The 84-year old Chief Minister, V.S. Achuthandandan, a hard-line ideologue, declined to meet with the Political Counselor. He claimed that he was in the middle of a series of ayurvedic treatments, using the same reasoning to skip out of a concurrent state-level party conclave that challenged his policy approach.

Welcoming private investment, with some caveats  
-----

15. (SBU) The CPM leaders, however, made clear that their new interest in FDI has its limits. Vijayan and Isaac said that the government would welcome investment in the service sector -- especially information technology, biotechnology, and tourism -- but the state's commitment to protecting its environment makes it less amenable to manufacturing. Isaac said that Kerala will establish more Special Economic Zones (SEZs), but the state will insist on unionization in the SEZs. He added that the state will "act to protect its traditional farmers." Education Minister Baby said that although Kerala welcomes exchanges with U.S. universities the CPM remains "ideologically opposed" to FDI in higher education. Responding to Political Counselor's question about the long-running dispute that has shut down Coca Cola's Kerala bottling plant, Vijayan argued that the troubles experienced by Coca Cola should not dissuade other U.S. companies from investing in Kerala. "The Coca Cola issue was not about American companies," he said, "but a local problem, an environmental issue." Vijayan went on to say that Coca Cola got caught up when anti-Western New Delhi-based NGOs took up the case.

CHENNAI 00000272 002 OF 003

Congress will gain seats, but how many?  
-----

16. (SBU) There was a consensus that the CPM and its partners in Kerala's Left Democratic Front (LDF) alliance would be hard-pressed to replicate their 2004 performance when they won 19 of the state's 20 seats in the Lok Sabha (the Lower House of India's Parliament). Finance Minister Isaac responded to Political Counselor's question about the CPM's prospects in the upcoming Lok Sabha elections by saying "we have nowhere to go but down." Isaac said that recent infighting within the CPM has upset voters, but "we are getting our act together" and he expects the CPM to hold onto 12 or 13 of the seats. Journalist contacts agreed with Isaac's assessment, saying Congress and its allies are likely to win 8 seats (leaving the CPM and its LDF allies with 12 seats). Congress Opposition Leader Oomen Chandy and Kerala Congress President Ramesh Chennithala were more optimistic about their prospects: both said they expect to win 12-15 seats.

CPM to use civ-nuke to sway Muslims; all eyes on Iran  
-----

17. (SBU) Referring to Kerala's strong anti-American streak, Opposition Leader Chandy glumly said "we are the victims" of the United Progressive Alliance's victory in the July 22 trust vote (ref C). He said the CPM is already tapping into local anger -- especially among Kerala's substantial Muslim population -- over Congress's pursuit of U.S.-India civil nuclear cooperation. The journalists agreed that the distrust of closer ties with the U.S. will figure prominently in the upcoming elections: "Iraq and Afghanistan are still potent issues in Kerala. The CPM will use the vote on the deal to get Muslim support." Our interlocutors all raised the subject of U.S. intentions towards Iran and the possibility of U.S. confrontation with Tehran. Congress President Chennithala urged the United States to "find a peaceful way" to address Iran's nuclear program, adding that U.S. military action against Iran would further complicate his party's electoral prospects.

Migration to Gulf States: Terrorist Finance and Trafficking  
-----

18. (U) Academics with the Center for Development Studies (CDS) described Kerala's history of extensive external migration. They explained that 1.8 million Keralites live abroad and another 900,000 in other states in India; the combined figure of 2.7 million accounts for almost 10% of the state's population. These 2.7 million Keralite migrants, in turn, support 9 million people left behind in Kerala (almost one third of the state's population) by sending back remittances that amount to 20% of the state's GDP. CDS scholars said that unmarried women constitute an increasing share of migration. A large number of these unmarried female migrants take "a huge risk" by going to work as domestic laborers. When Political Counselor asked whether many of these women are victims of trafficking in persons, a CDS scholar who focuses on gender issues said "a small segment" of the population fall victim to trafficking. She emphasized that while the vast majority of the female domestic workers are not trafficked, they still face serious sexual harassment from their employers.

19. (SBU) Finance Minister Isaac raised the subject of the informal money transfer system known as "hawala," saying that it is "impossible" to stop the movement of funds from the Gulf states to Kerala. Isaac told Political Counselor that money from the Gulf is "definitely funding Indian terrorist groups," including the Students Islamic Movement of India (SIMI) and the group that claimed responsibility for the recent bombings in Bangalore and Ahmedabad, the Indian Mujahideen (ref A and B). Isaac said it is likely that Keralites help get the money to the Indian terror groups, but that the funds come from "wealthy Gulf Arabs." (Note: In an August 11 presentation on terrorist finance Arabinda Acharya, an academic from the Rajaratnam School of International Studies in Singapore, said much the same in a discussion of the use of hawala by Gulf Arabs to fund Indian terrorist groups. Acharya said wealthy Gulf Arabs, especially Saudis, have their Kerala migrant employees send money to Indian terrorist groups through hawala channels. Acharya "firmly believes" that funding for attacks in Bangalore and Hyderabad came through this method. End note.)

Comment: CPM reformists confident;  
Civ-Nuke will help left retain seats  
-----

10. (SBU) Comment: The Kerala CPM, which is generally understood to be more dogmatic than its West Bengal counterpart, is clearly undergoing a major economic policy shift. The openness with which Vijayan, Isaac, and Baby expressed their desire for U.S. investment to American diplomats was startling and demonstrated confidence that their reformist faction has the upper hand over the more dogmatic wing of the Kerala CPM led by Chief Minister Achuthanandan. By

CHENNAI 00000272 003 OF 003

encouraging private investment, especially overseas and American investment, Vijayan is leading the Kerala CPM is towards the pragmatism exemplified by the West Bengal CPM. The volte-face reflects a growing concern that the state is being left out of the Indian growth story, especially when compared to its neighbors, the shining stars of South India.

11. (SBU) Comment continued: The Kerala CPM and its allies are in the difficult position of defending the 19 of 20 parliamentary seats from Kerala they won in 2004, which is exacerbated by the fissures within the normally disciplined CPM. But the peculiar political geography of Kerala is in the leftists' favor. The CPM will be able to tap into the state's long-running anti-Americanism by bludgeoning its Congress rivals about U.S.-India civil nuclear cooperation. Moreover, with Muslims making up almost a quarter of the state's population, the CPM can drum support by playing to this constituency's anger at U.S. policy in Iraq, Afghanistan, and Iran. These factors will likely keep the CPM's losses in the range of 7-8 seats rather than the 12-15 that the Congress's leaders dream of capturing. End comment.

KAPLAN